SOUTH FLORIDA WATER MANAGEMENT DISTRICT
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TO: **HENRY DEAN, EXECUTIVE DIRECTOR, AND MEMBERS OF THE GOVERNING BOARD**

SUBJECT: **COMPREHENSIVE ANNUAL FINANCIAL REPORT – FY 2001**

Florida Statutes require that an external audit of our financial statements be performed by a firm of independent certified public accountants to express an opinion that the District's financial statements are fairly presented in conformance with generally accepted accounting principles (GAAP). Pursuant to this requirement, we hereby issue the comprehensive annual financial report for the South Florida Water Management District for the fiscal year ended September 30, 2001.

Responsibility for the integrity, objectivity, accuracy, completeness and fairness of presentation of these financial statements rests with management. The financial statements were prepared in conformity with generally accepted accounting principles for governmental entities. To our knowledge, the information is accurate in all material respects and fairly presents our financial position and operating results. The report includes disclosures required to provide an understanding of our financial affairs.

Management is responsible for maintaining an internal control structure designed to assure that District assets are protected from loss, theft, or misuse. The concept of reasonable assurance recognizes that the cost of a control should not exceed the expected benefits, and the evaluation of costs and benefits requires management's estimates. The Governing Board and management have a plan of organization and policies in place to safeguard assets, validate the reliability of accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies and procedures. We believe these existing internal accounting controls adequately safeguard assets and provide reasonable, but not absolute, assurance of proper recording and reporting of our finances.

Independent auditors have audited the financial statements in accordance with generally accepted auditing standards and included a review of internal accounting controls to the extent necessary to express an opinion on the fairness of these financial statements. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the South Florida Water Management District's financial statements for the fiscal year ended September 30, 2001 are fairly presented in accordance with GAAP. The independent auditors' report is presented as the first component of the financial section (Section II) of this report.

The independent audit of the District's financial statements was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditors to report not only on the fair presentation of the financial statements, but also on the District's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are presented in Section VI of this comprehensive annual financial report.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the report of the independent auditors.

DISTRICT BACKGROUND

South Florida's subtropical extremes of hurricane, flood, and drought combined with efforts to populate this "new frontier" led the U.S. Congress to adopt legislation creating the Central and Southern Florida Flood Control Project (C&SF) in 1948.

The project's primary goal was to serve the needs of the region's growing agricultural and urban populations and to protect and manage water resources. The U.S. Army Corps of Engineers (COE) would, over the following decades, design and build a vast network of levees, canals, and other improved waterways, and water control structures designed to help manage the often unpredictable weather extremes of the region.

In 1949 the Florida Legislature created the Central and Southern Florida Flood Control District (FCD) to act as the local sponsor for the project, operating and maintaining the water control network with funding from property taxes levied within the District boundaries. Throughout its history, this regional water resource agency evolved and grew primarily in response to population growth and development and its impact on water resources.

The Florida Water Resources Act of 1972 launched the most significant change in the state's approach to natural resource management. This legislation divided the state into five regional water management districts and greatly expanded the responsibilities of the existing FCD. This included a greater emphasis on water quality and environmental protection initiatives.

The FCD was renamed the South Florida Water Management District in 1976, and new boundaries were drawn to encompass the region's primary watersheds. Since 1949 the District has grown into a multi-faceted agency responsible for most water resource related issues – from providing flood protection and water supply protection to people living in cities and on farms to restoring and managing natural ecosystems.

The District's Governing Board is composed of nine members appointed from specific geographic areas within our boundaries. The members are appointed by the Governor and are confirmed by the Florida Senate. Appointments are made on a staggered basis and members serve without salary for a term of four years. The Board elects its own officers, including a chairman and vice-chairman.

GEOGRAPHIC BOUNDARIES OF THE DISTRICT

Water management district boundaries are based on natural, hydrological basins rather than political or county limits to allow for effective and efficient planning and management. The boundaries of the District encompass all or part of 16 south Florida counties, covering a total area of 17,930 square miles. More than 6.6 million people live within the District's boundaries. A map showing the geographic boundaries of the District can be found on page I-11.

GENERAL OPERATIONS

The District's water management system includes roughly 1,800 miles of canals and levees, with 200 primary water control structures operated by the District. Nearly 2,000 smaller structures are in place system-wide to control inflows from secondary sources (local, municipal, or county drainage and/or water control districts) into the District's primary system. The District has 29 pumping stations which can move hundreds of millions of gallons of water in and out of storage areas, providing both water supply and flood protection.

The man-made water management system undergoes continuous enlargement and refinement with new construction, acquisitions and upgrades to the existing network. This enhances the system's ability to provide flood control and water supply protection as well as preserve water quality and environmental values.

District employees are located at facilities across our 16 county jurisdiction to offer the public more direct and responsive access to permitting and other agency functions. These locations include eight Field Stations located in Kissimmee, Okeechobee, Clewiston, West Palm Beach, Fort Lauderdale, Miami, Homestead, and Naples. District headquarters are in West Palm Beach with Service Centers located in Fort Lauderdale, Fort Myers, Naples, Stuart, Miami, Orlando, Okeechobee, and Islamorada.

The Big Cypress Basin Branch Office and Field Station are headquartered in Naples. Operations and policies for the Basin are directed by a six-member Basin Board and are carried out by Basin staff, under the direction of the Basin Administrator.

REGULATORY POWERS

The District has a number of regulatory programs designed to protect the region's water resources. Under the state's 1993 environmental streamlining initiative, land alteration activities or works affecting water resources are regulated under one type of permit – the Environmental Resource Permit. The water management districts and the Florida Department of Environmental Protection (DEP) have developed uniform wetland delineation, mitigation banking, and environmental resource permitting criteria. The District is also responsible for regulating consumptive uses of water. Types of activities regulated by the District include:

- Projects with impacts on wetlands or other surface waters (dredge and fill)
- Surface Water Improvement and Management (SWIM) "Works of the District"
- Use of District lands, canals, streams or aquifers
- Drainage system construction or operation, and
- Well construction

OTHER DISTRICT PROGRAMS

The District's responsibilities reach far beyond regulatory programs and operations. The District acquires, manages, and restores lands through Florida's Save Our Rivers (SOR) and Preservation 2000/ Florida Forever programs.

Water resource education targeted at schools and at the general public is an important District focus. Partnerships and coordination with other levels of government and other agencies help support water resource development projects, development of alternative water supplies, water conservation, reuse, and stormwater management goals.

Research, data collection and analysis help ensure District projects and programs are effective and efficient. Emergency operations and management are a cornerstone of District operations, especially during the hurricane season, or the seven-month dry season when serious water shortages can occur. The District is also a leader in melaleuca, aquatic weeds, and other exotic pest plant control.

REGIONAL ECONOMIC CONDITION AND OUTLOOK

OVERVIEW OF THE LOCAL ECONOMY

South Florida's economic performance is closely related to the U.S. economy's overall health. As the nation's economy went into recession during the past year, south Florida's economy also slowed down. Unemployment increased locally from 5.0% to 5.6% and retail spending dropped.

MAJOR INDUSTRIES AND POPULATION TRENDS

The number of new residents that moved to south Florida during the last decade has increased the population by an average of two percent annually, about twice the national growth rate. The District's population is projected to increase from its current 6.6 million residents to approximately 8 million by 2010. These new residents will promote economic growth by stimulating demand for homes, furnishings, cars and services.

The **tourism industry** has been adversely affected both by the slowing economy nationwide and by the reluctance of tourists to travel by air, due to the recent terrorist attacks in New York. With the approach of winter, visitors have flocked to the Sunshine State, although in lower numbers than in recent years. It is predicted that businesses affected by tourism, such as hotels, restaurants, and theme parks, will rebound in 2002 as the national economy improves.

The **construction industry** was also affected by the slowing economy. Residential housing starts for counties within the District were down approximately 2% in 2001 from the prior year, and may be slightly lower in 2002. Aided by lower interest rates and an end to the recession, residential construction should strengthen by the middle of 2002

FUTURE ECONOMIC OUTLOOK

Despite the slowdown from the current year's recession, South Florida's economy is expected to perform well in the coming years. In addition to growth in the tourism and construction industries, the region should experience solid growth in international trade, business and financial services, telecommunications, and medical-pharmaceutical industries. The population of the District is predicted to continue to grow at its fast pace, while unemployment is expected to remain low. Companies will continue to relocate to south Florida, drawn by its high quality of life, abundant financial resources, expanding port facilities and proximity to international airports.

MAJOR INITIATIVES

EVERGLADES RESTORATION

Florida's Everglades are the largest subtropical wetlands in the United States and are a unique resource. The Everglades "River of Grass" contains a diversity of plants and wildlife not found anywhere else in the United States. For more than a century, human activities have altered the ecosystem to provide for the development of a growing population, agriculture, and protection against deadly hurricanes and droughts.

Today, the Everglades face critical challenges as a result of more than 100 years of change. Phosphorus-enriched agricultural and stormwater runoff is upsetting the ecosystem's delicate balance. Other threats include changes in the quantity, distribution and timing of freshwater; an infestation of non-native plants; mercury accumulation in the tissue of some Everglades fish, birds and other animals; and a reduction in the size of the Everglades marshes.

The **Everglades Forever Act** (EFA), passed by the Florida Legislature in 1994, established requirements essential to restore significant portions of the Everglades. The District implemented the Everglades Construction Project and the Everglades Restoration Program in order to meet the requirements of the Everglades Forever Act.

The **Everglades Construction Project** (ECP) is the first major step in Everglades restoration pursuant to the Everglades Forever Act. The EFA directs the District to acquire land, design, permit, and construct a series of Stormwater Treatment Areas (STAs) to reduce phosphorus levels from stormwater runoff and other sources before it enters the Everglades Protection Area. These six large constructed wetlands, totaling over 47,000 acres, are the cornerstone of the ECP.

Other ECP components include hydropattern improvements and diversion of stormwater flows from Lake Okeechobee. In total, the ECP is composed of 12 interrelated construction projects located between Lake Okeechobee and the Everglades. The ECP is mandated to have the last of the STAs completed by October 1, 2003 and other ancillary projects will continue through fiscal year 2006.

During fiscal year 2001 the District completed construction of STA-1 West (G-310) and STA-2 (G-335) outflow pumping stations; Ocean & Hillsboro Canals project components under the S-5A Basin Diversion Works; and completed approximately 90% of the construction oversight efforts of the two project components of the Chapter 298 Districts: East Beach and East Beach Water Control Districts. In addition, construction was started on the STA-3/4 project components.

COMPREHENSIVE EVERGLADES RESTORATION PLAN

The **Comprehensive Everglades Restoration Plan** (CERP) is the plan for the restoration, protection, and preservation of the water resources of central and southern Florida, including the Everglades. Principal features of the plan are the creation of approximately 217,000 acres of new reservoirs and wetlands-based water treatment areas. These features vastly increase storage and water supply for the natural system, as well as for urban and agricultural needs. The CERP is intended to restore a more natural flow of water, including sheetflow, improve water quality and restore a more natural hydroperiod in the South Florida ecosystem.

Through the Water Resources Development Act of 2000, Congress has authorized an initial $1.4 billion package of projects that will begin implementation of the Comprehensive Plan. The initial authorization includes (1) four pilot projects, (2) ten specific project features, and (3) a programmatic authority through which smaller projects can be more quickly implemented. Authorization for the remaining features of the Plan will be requested in subsequent Water Resources Development Act proposals beginning in 2002.

Prior to implementation, six pilot projects, costing about $97 million, will be built to address uncertainties with some of the features in the Comprehensive Plan. These projects include aquifer storage and recovery in each geographic region that the technology is proposed; in-ground reservoir technology adjacent to Everglades National Park; and advanced wastewater treatment technology to determine the feasibility of using reuse water for ecological restoration.

The initial set of construction features will provide immediate system-wide water quality and flow distribution benefits and use already purchased land. Ten projects and the adaptive assessment program, totaling $1.1 billion, are recommended for initial authorization. These projects were selected because they can provide system-wide water quality and flow distribution benefits to the ecosystem as well as opportunities to integrate these features with other ongoing federal and state restoration programs.

Implementation of the Comprehensive Everglades Restoration Plan is estimated to cost $8.4 billion, half of which will be paid by the federal government. The State of Florida and the South Florida Water Management District will each provide approximately one-fourth of the total cost.

KISSIMMEE BASIN RESTORATION

In 1947 some 250,000 acres were flooded in and south of the cities of Kissimmee and Orlando. In 1962, in an attempt to keep these cities protected from further destruction, the U.S. Army Corps of Engineers dredged the Kissimmee River, turning it from 103 miles of winding river into a 56-mile long canal.

The environmental devastation of the dredging was staggering. Native vegetation disappeared, as did animals dependent upon it for food, nesting and shelter. Of the original 40,000 acres of wetlands, only 10,000 remain.

In 1976 the Legislature created a commission to study restoration of the river. After years of studies and experimenting with ways to restore the river, a plan evolved to fill 22 continuous miles of the canal with the original spoil material, forcing the water into the historic river channel and floodplain. The project also calls for removing two of the six dams and locks along the canal. When finished, 43 miles of the historic river and approximately 40 square miles of river/floodplain ecosystem will be restored.

The state and federal governments will split the estimated $500 million cost to restore the river. The Army Corps of Engineers will handle construction and design of the restoration. To date, the state has purchased approximately 80 percent of the 87,000 acres it needs, including land around the up-river lakes, to hold more water. However, approximately $84.5 million is estimated to be required to obtain the remaining land interests or to mitigate for potential effects of the restoration.

So far, over 6.5 miles of the former canal have been backfilled and 15 miles of Kissimmee River have been reconnected. The final backfilling phase is scheduled to be completed by 2012.

LAKE OKEECHOBEE RESTORATION

Lake Okeechobee is a critical habitat for wading birds and migratory waterfowl, a source of drinking and irrigation water, part of a trans-Florida navigation route, and is an economically important commercial and recreational fishery. The Lake Okeechobee Protection Program (LOPP) is focused on development and implementation of management efforts that will allow the lake to once again support a diversity of native plants and animals, while providing flood protection, water supply, navigation, and recreation. The program is designed to solve three major problems facing the lake and its watershed: (1) excessive nutrient loading, (2) extreme high and low water levels in the lake; and (3) invasive species.

During fiscal year 2001 construction began on two of the isolated wetland projects as part of the Lake Okeechobee Water Retention /Phosphorus Removal Critical Project. In addition, the District initiated projects dealing with the following areas: (1) feasibility of removing sediments from Lake Okeechobee; (2) a pilot project to remove sediments from tributaries in the Lake Okeechobee watershed; (3) a study to analyze the fate and transport associated with the application of biosolids; (4) an update of an import/export phosphorus budget in the watershed; and (5) an economic valuation study analyzing the cost of different approaches to phosphorus removal. Efforts will continue with these projects in the next fiscal year.

INTERNAL CONTROLS

PRINCIPLES OF SOUND FINANCIAL MANAGEMENT

Management acknowledges its responsibility for sound administration of our financial resources. This responsibility begins with our *Principles of Sound Financial Management.* These are sixteen guiding principles established by our Governing Board that reflect the core beliefs of how we do business. One of the principles says that we will maintain accountability and prudently use financial resources. As an integral part of our goal of fiscal accountability, we currently provide useful, timely, and accurate financial information for reporting, analysis, and decision making. Accountability requires presentation of relevant information in a way that attracts attention, retains interest, and is understandable to the citizenry. The objective of this report is to communicate as clearly as possible our operating results and financial position.

BUDGET ADOPTION AND CONTROLS

The Truth-in-Millage (TRIM) Act enacted by state legislation requires disclosures of information regarding tax millage and budget adoption. Each year, following the required disclosures and the conduct of hearings for taxpayer comment, the Governing Board sets the tax rates and adopts a budget.

The Governing Board also approves budget transfers among divisions and capital projects during the year. The level of control at which expenditures may not legally exceed the budget is at the fund level. Department directors can approve line item overruns as long as the total major object budget within a fund and department is not exceeded. Encumbrance accounting is used to reserve budgeted appropriations for obligations incurred but not received.

CASH MANAGEMENT

Our cash position is bolstered by our aggressive but prudent investment policy. Cash not currently needed for operations is placed in a variety of investments, depending on how soon the cash will be needed for spending. During the last fiscal year our investments included U.S. Agency obligations, the Florida Local Government Surplus Funds Trust Fund Investment Pool, and money market accounts.

RISK MANAGEMENT

The District is self-insured, within varying limits, for workers' compensation, general liability and automobile liability insurance programs. All premium revenue and claims expenditures are reported in the District's General Fund. The District participates in a fully insured health care program that has enabled the District to realize substantial cost savings.

Risk control procedures have been established to reasonably assure that the District's employees are aware of their responsibilities regarding loss exposures related to their duties. In a similar manner, risk control procedures have been established to reduce possible losses to property owned or under the control of the District.

DEBT ADMINISTRATION

The District's debt is composed mainly of the unpaid balance of Special Obligation Land Acquisition Bonds. These bonds were issued to finance the purchase of environmentally sensitive lands and are secured by a share of statewide documentary stamp tax collections. The District has no general obligation bonds authorized or outstanding. Our credit rating remains Aaa for these insured bonds. The total liability for our bonds at September 30, 2001 is $72.1 million. We are obligated for payments on these bonds through fiscal year 2016.

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the South Florida Water Management District for its comprehensive annual financial report for the fiscal year ended September 30, 2000. This was the eleventh consecutive year that the District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENTS

We extend our sincere appreciation to the many District employees who provided countless hours of research and preparation in the production of this report. Special thanks go to the employees of the Division of Accounting and Financial Services for their diligence in the production of this report.

Respectfully submitted,

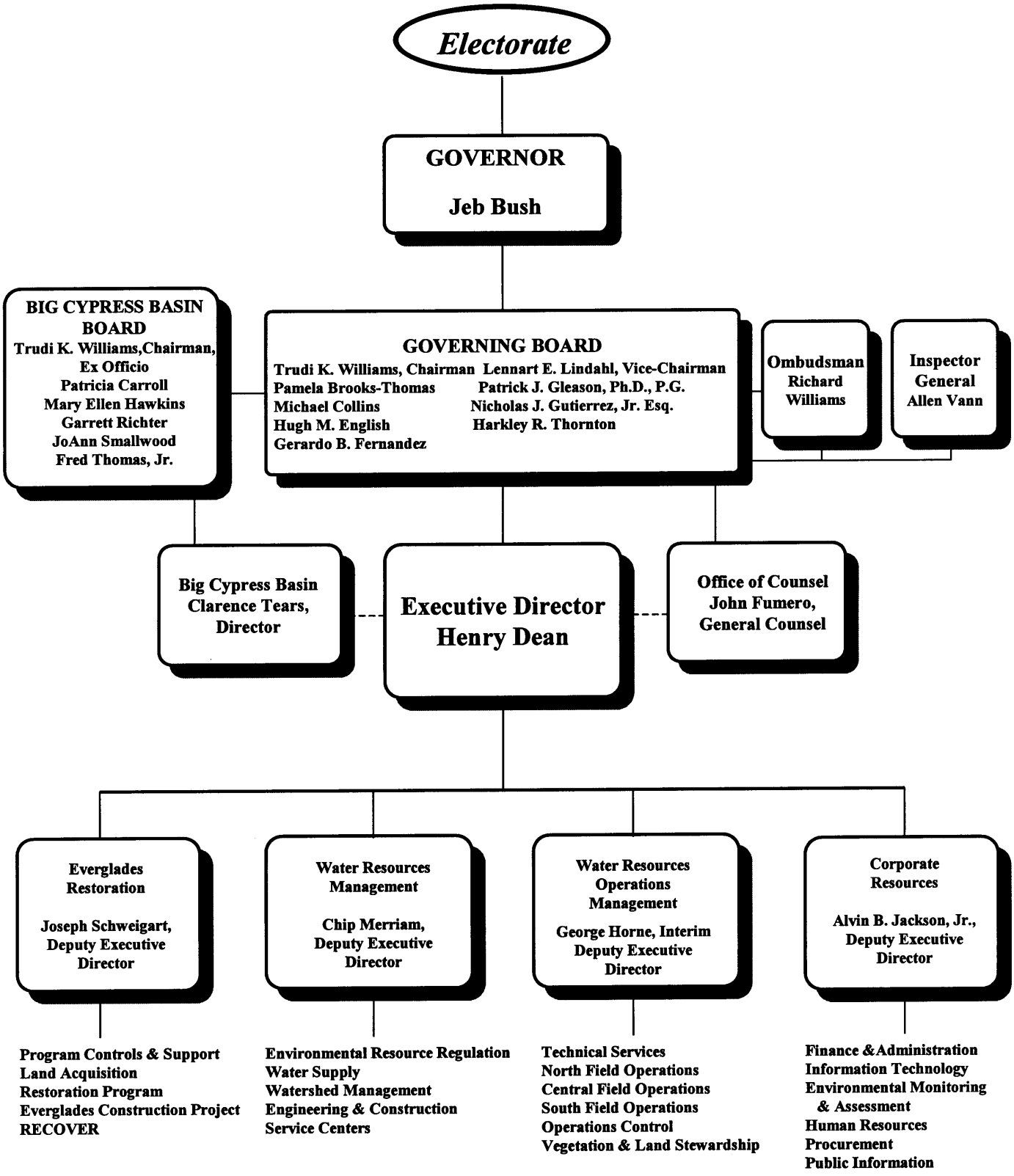
Paul E. Dumars, Sr., Director
Department of Finance and Administration

Robert N. Gray, Director
Division of Accounting and Financial Services

February 28, 2002

SOUTH FLORIDA WATER MANAGEMENT DISTRICT

ORGANIZATION CHART AND LIST OF PRINCIPAL OFFICIALS



Certificate of Achievement for Excellence in Financial Reporting

Presented to

South Florida Water Management District

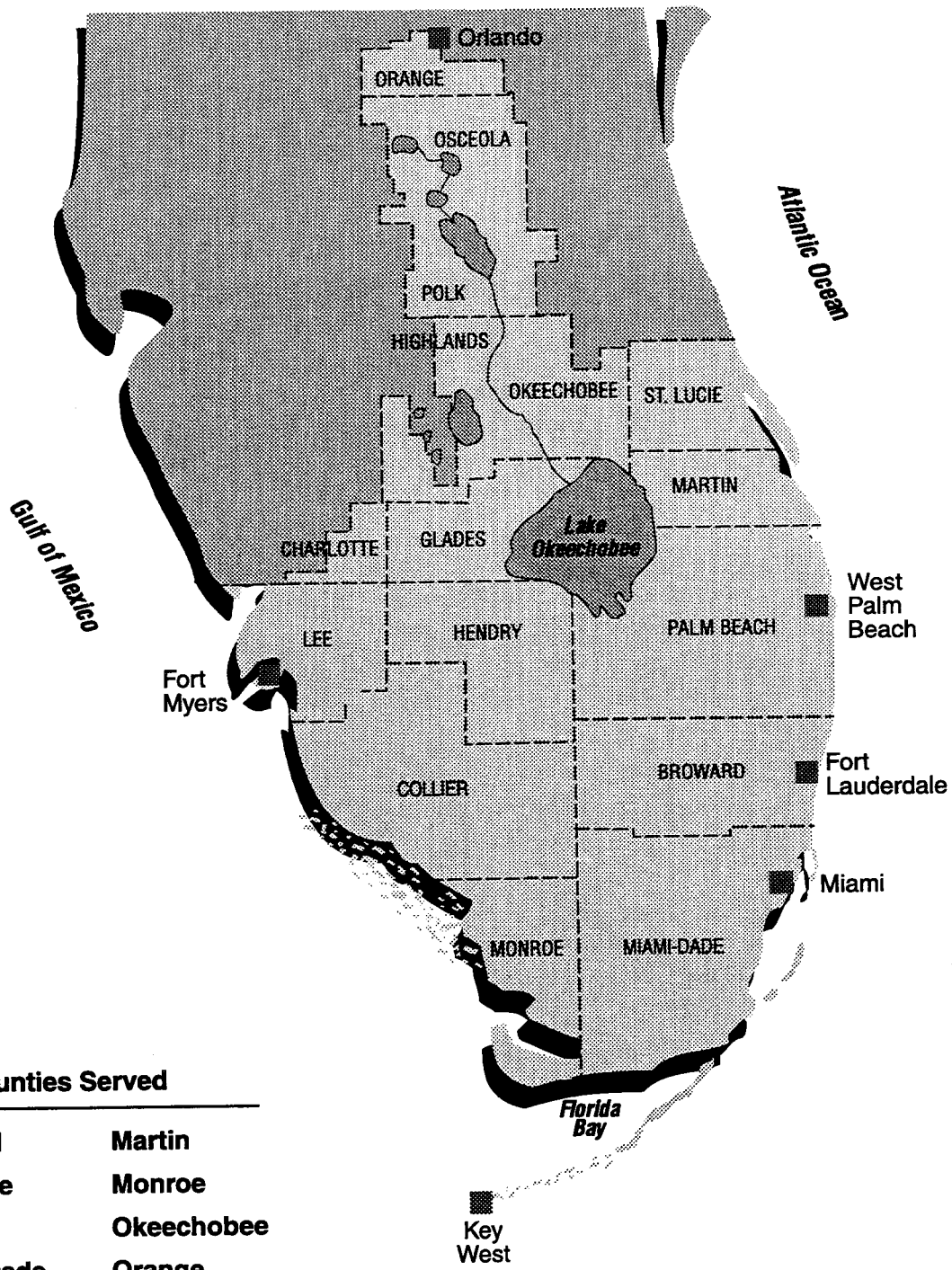
For its Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2000

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

South Florida
Water Management District
Geographic Boundaries



Counties Served

Broward	**Martin**
Charlotte	**Monroe**
Collier	**Okeechobee**
Miami-Dade	**Orange**
Glades	**Osceola**
Hendry	**Palm Beach**
Highlands	**Polk**
Lee	**St. Lucie**